



# AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

RETAIL STRATEGY UPDATE AND NEXT GENERATION STORE

TUESDAY 19 JULY 2016



## Important Notice

The material in this presentation is of general information about API's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete. Nothing in this presentation should be construed as a recommendation or forecast by API or an offer to sell or a solicitation to buy or sell shares. It does not take into account the investment objectives, financial situation or needs of a particular investor. These should be considered with or without professional advice when deciding if an investment is appropriate.

This presentation contains certain non-IFRS measures that API believes are relevant and appropriate for the understanding of the business. Refer to Appendix 1 for further information.

# INTRODUCTION

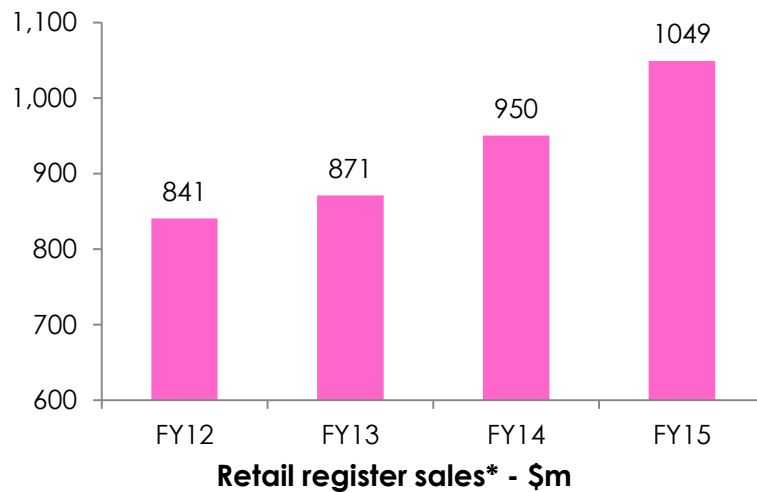
STEPHEN ROCHE  
CEO & MANAGING DIRECTOR



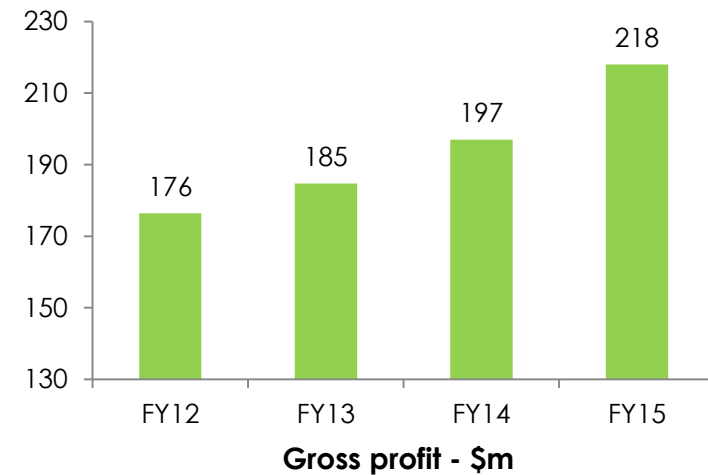
# Sustained growth with momentum



## Network sales (at register excluding dispensary)



## Gross profit (Retail operating segment)



- Clear market position generating sales growth
- Gross profit increasing year on year
- Expanding footprint expected to move beyond 450 stores in FY17
- Strong innovation platform for the future sustainability of the brand



**TRANSACTIONS/YEAR**  
**+53M**

**FY14 COMPARABLE  
STORE GROWTH**  
**6.0%**



**FY15 COMPARABLE  
STORE GROWTH**  
**4.5%**

**FY16\* YTD**  
**2.6%**

**SISTER CLUB  
MEMBERSHIP**  
**6.1M**



**BRAND AWARENESS**  
**94%**



**PAGE  
VIEWS/  
MONTH**  
**11M**

\*YTD week ending 9 July 2016

# Priceline Pharmacy strategic pillars

## Maximise brand reach

- Build brand recognition and connection
- Target customer segments
- Maximise paid, owned and earned presence

## #1 health & beauty position

- Further cement unrivalled position in beauty
- Continue taking market share in health
- The total health and beauty destination for women

## Build customer loyalty

- Deepen unique customer service proposition
- Grow biggest health and beauty loyalty program
- Deliver innovative store experiences

## National network expansion

- Maintain at least 20 stores/year growth
- Only 5% of total footprint taken
- Grow franchise partner advocacy

# EXTENDING BRAND REACH

MARK O'KEEFE  
GENERAL MANAGER MARKETING



# Customer Connection & Understanding





# Customer Connection & Understanding



Segment	National Sample	SisterClub Database	SisterClub Index
Beauty Believers	9%	13%	143
Age Optimisers	10%	18%	176
Deal Hunters	9%	16%	178
Silver Sisters	7%	16%	235
Silver Scripters	16%	6%	35
Reluctant Sisters	14%	7%	48
Aussie Battlers	14%	11%	79
Quality Seekers	20%	14%	69

Source: National sample: 2,000 female shoppers Galileo Kaliedoscope  
Sister Club data base: 6m female shoppers

# Maximise brand reach

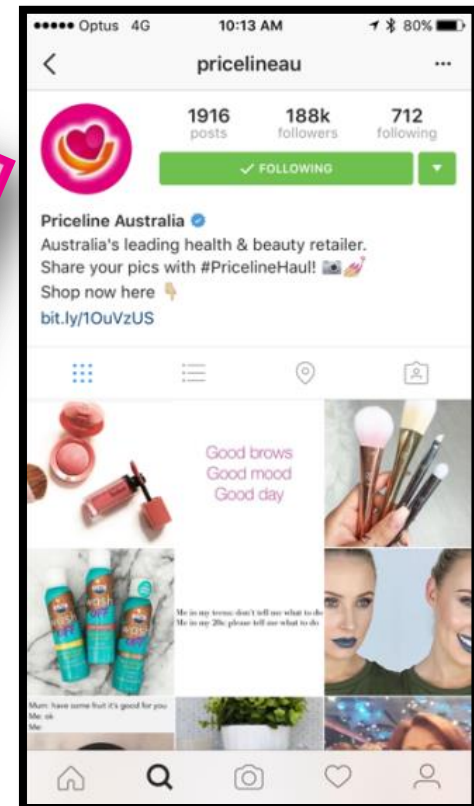
PAID



OWNED



EARNED



# Maximise brand reach

93% Reach women 18+

## In store

- 440 stores forecast nationally
- Strong reach Australia wide
- A woman's playground
- Offers and promotions
- Strong POS linkage
- Local Area Marketing
- Dedicated Beauty Advisors & Pharmacists services

## Multimedia Screens

- Total number of stores with screens: 385
- Total number of screens playing content: 741

## Activations

- Major National events
- Shopping centre events
- In store events

## Major Campaigns & Sponsorships

- Beauty School
- Virgin Australia Melbourne Fashion Festival
- Priceline Pinky Awards
- Priceline Pharmacy Kopyong Classic
- Health Tracker
- Beauty of You
- Festival of Beauty
- Girlfriend Model Search

## Online

- Reach: Average monthly page views 11m
- Monthly visits: 1.8m
- Targeted Ready to Buy audience
- eCommerce Store
- Mobile optimised website
- Girlfriend Model Search

## Catalogues

- Over 7m catalogues per month reaching 4M women
- All the famous brands
- Online catalogue includes eCommerce integration
- Strong value
- Event theming

## Sister Club

- 6.1 million total members
- 2.3 million digital connections
- 2.3 million mobile phone numbers
- Represent 42% total sales and spend
- 41% more than non-members

## Sisterhood Foundation

- Priceline Sisterhood Foundation
- Priceline's cause related marketing for women
- Sisterhood supports 5 charities
- More than \$2m raised since inception

## Social Media

- Facebook: 234,272
- Instagram: 200,000
- Twitter: 21,000 followers
- YouTube: 4,456 subscribers
- Pinterest: 15,500 followers
- Over 1m posted views per month
- Engaging, targeting beauty & health content

## Ambassadors

- Brand ambassadors
- Aligning with key talent to drive our brand message
- Experts in health and beauty

## Media

- 89% Reach (women 18+)
- Dedicated National TV campaign
- Integration with catalogue Offers
- Airing throughout the campaign period
- Media across print, press, radio & digital markets
- Marketwide media partnerships



# Maximise brand reach

## Health & Beauty Events / Activations



## Amplify our differences

1. “I want to shop in a store that understands me”

**We understand women**

2. “I want to shop somewhere that’s fun, exciting and is the best place to buy beauty items”

**Australia’s biggest beauty playground**

3. “I want a loyalty program that is generous, easy to understand”

**Sister Club**





## Amplify our differences

4. “I want to shop where it’s easy to browse and discover the latest, new and unexpected products”

**Destination for new**

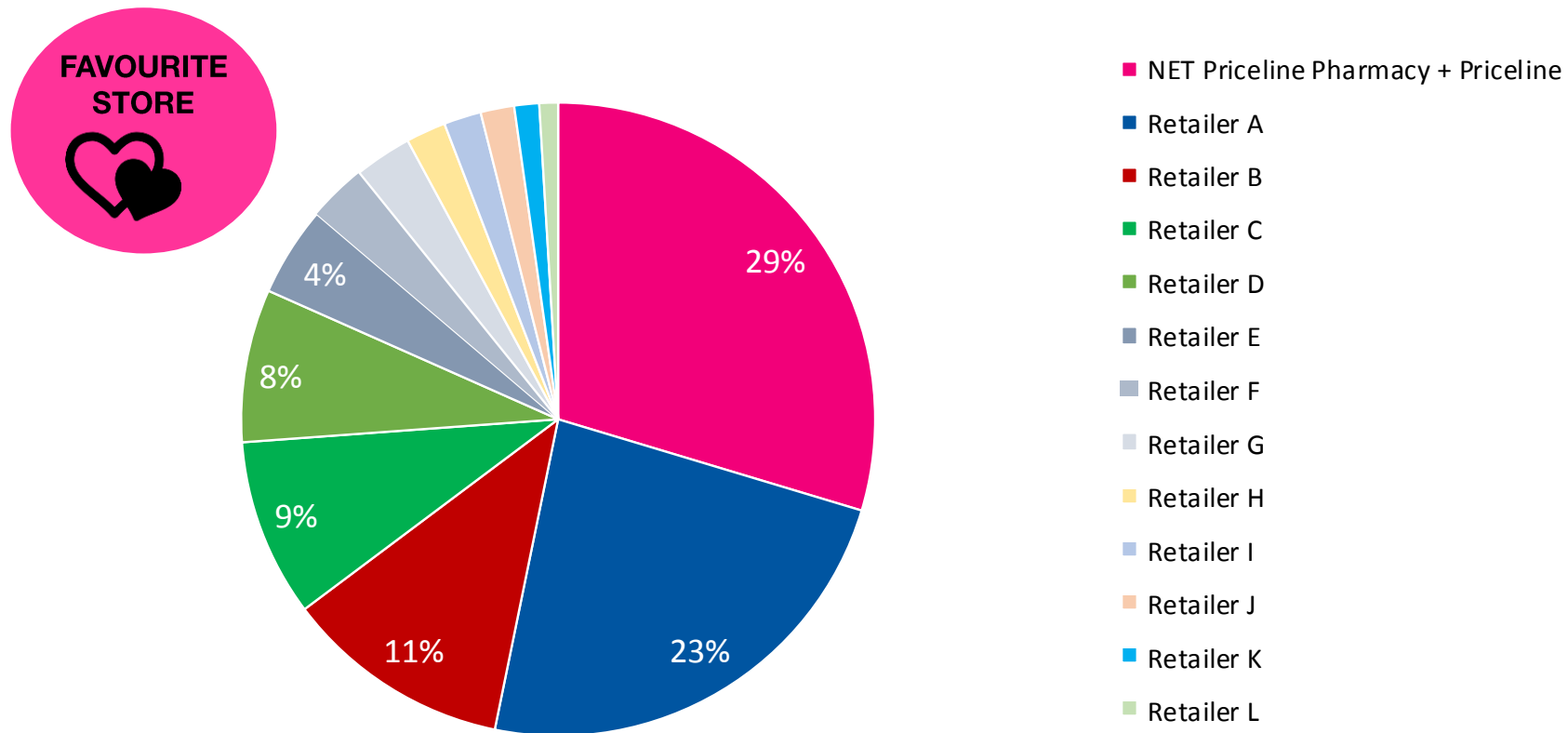
5. “I want a store that is passionate about Health and Beauty, has friendly, engaging staff and provides personalised service”

**In-store service and expertise**



# Australia's favourite health & beauty store

## FAVOURITE STORE – TOTAL MARKET (NOV '15 – MAR '16)



Source: Base female shoppers (1500) Nov '15 – Mar '16, Galileo Kaleidoscope Research

# #1 HEALTH & BEAUTY RETAIL POSITION

LIZ WEBSTER  
GENERAL MANAGER MERCHANDISE





# Priceline Pharmacy #1 health & beauty brand

## Market share

### Beauty – MAT growth\*

Priceline Pharmacy	+8.6%
Total Market	+7.6%

### #1 Retailer in Skincare

21% market share +17% MAT growth

### #1 Retailer in Cosmetics

43.5% market share +13% MAT growth

### #1 Retailer in Beauty Accessories

40% market share +10% MAT growth

### Health – MAT\*

Priceline Pharmacy	+12.5%
Total Market	+8%

### Dispensary volume 2015^

Priceline Pharmacy LFL	+5.2%
Total PBS growth	+2.25%

\*Source: MAT April '16 Aztec/Nielson

^ Source: Calendar 2015 Pharmaceutical Benefits Scheme - date of supply data

# Priceline Pharmacy #1 health & beauty brand

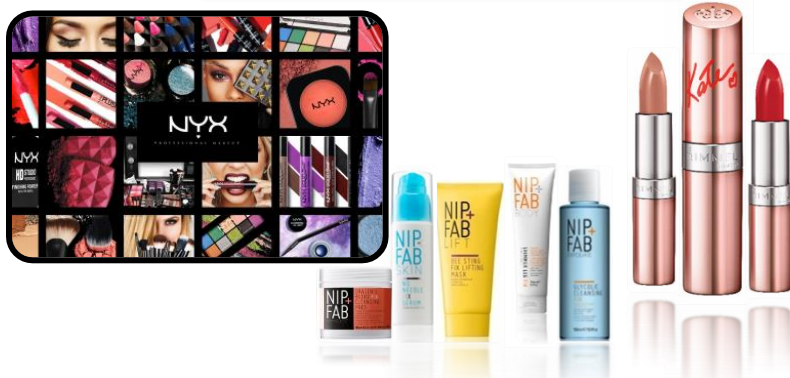
Famous for being first



Valued for disruption



Exclusive products



Best range and choice

**17,000 PRODUCTS STOCKED**

**4900 COSMETICS**

**590 FRAGRANCES**

**3000 SKINCARE**

**3700 MEDICINAL**

**2750 HAIRCARE**

**1300 VITAMINS**

# Priceline Pharmacy #1 health & beauty brand

*Valued as partner*

L'ORÉAL  
PARIS

 **alphapharm**  
A Mylan Company

NATIO  
NATURAL AUSTRALIAN BEAUTY

**NYX**  
PROFESSIONAL MAKEUP

real  
**Tech**niques™  
by Samantha Chapman

**REVLON**  
LOVE IS ON™

**VS**  
SASSOON

**Swisse**

manicare

JOHN FRIEDA®  
LONDON PARIS NEW YORK

Ogx  
beauty pure and simple

**BLACKMORES®**

**Colgate®**

nudebynature

**bondi  
sands**  
The Australian tan

  
sukin®  
australian natural skincare

**Scholl**



JERGENS®

**Dettol**

**DR. LEWINN'S®**

# Priceline Pharmacy #1 health & beauty brand

## Private label

- Must be balanced approach where customers expect to find latest and best brands
- Expect high quality and exceptional value
- Protects margins in face of heavy competition

Shop these wonderful value brands genuinely **exclusive to Priceline Pharmacy.**

*exclusive to us*

1. BioSource Skincare Oil 60ml **\$9.99** 2. Models Prefer Brightening Primer 30ml **\$16.99**  
3. Savvy Long Lasting Matte Lipstick 2.8g **\$6.99** 4. Models Prefer BB Brush **\$22.99**  
5. Models Prefer Mineral Powder 10g **\$16.99** 6. Moreish Glory Serum 30ml **\$29.99**  
7. Moreish Clay Mask 75ml **\$19.99** 8. Moreish Liberation Foaming Cleanser 200ml **\$14.99**

priceline.com.au

priceline pharmacy

*exclusive to us*

**BIO SOURCE™**

Quality you expect  
at a price you don't

1. Vitamin C 1000mg + Zinc 60 Tablets **\$9.99** 2. Women's Multivitamin One-A-Day 120 Tablets **\$19.99**  
3. Cacao Powder 100g **\$6.99** 4. Coldwater Fish Oil 1000mg 400 Capsules **\$12.99** 5. Mace Powder 100g **\$7.99**  
6. Vitamin D 1000IU 280 Soft Gel Capsules **\$13.99** 7. Chondroitin 1700mg 60 Capsules **\$18.99**

priceline.com.au

priceline pharmacy

# LOYALTY & EXPANSION

LYNNE GALLUCCI  
GENERAL MANAGER RETAIL OPERATIONS



# Build customer loyalty

## Unique service proposition



## Health & beauty's best loyalty offer



## Leverage specialist roles

- Pharmacists, Pharmacy Assistants/Health Advisors, Beauty Advisors

- 6.1 million total members
- 2.3 million digital connections
- Spend 41% more than non-members



# Build customer loyalty

Maximise promotional pulling power of customers to stores by fulfilling the customer experience with service, range and value



# Network expansion

Sustainable sales growth for pharmacists in uncertain market

NEWS

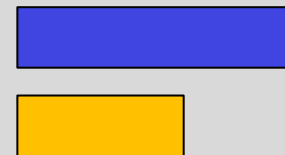
## SIXTH COMMUNITY PHARMACY AGREEMENT SIGNED

The Pharmacy Guild has welcomed the signing of the Sixth Community Pharmacy Agreement, which underpins the provision of PBS medicines until 2020.

Grow stronger franchise partner advocacy

Priceline 2016

Franchise Sector  
Benchmark



Bank prime sites for conversion

Footprint accessible is significant





# Next Generation for growth

- Mapped out future store requirements
- 2008 re-positioning and re-branding
- 2016 – Next Generation store – builds on success, accentuates strengths, more benefits for franchise partners, takes into a new era of competition



# Building a strong future



## SUMMARY

STEPHEN ROCHE  
CEO & MANAGING DIRECTOR



# Ongoing shareholder benefits

- Key market strengths – brand power, store growth, sales growth
- Stronger returns coming through leveraging economies of scale

Indicative shareholder returns through network growth*	500 stores (+ 60 stores)	600 stores (+160 stores)
Incremental income	\$13.9 m	\$37.1 m
Incremental costs	(\$2.4)m	\$(6.5)m
Depreciation	-	-
Incremental earnings	\$11.5 m	\$30.6 m
Incremental profit after tax	\$8.0 m	\$21.4 m
Incremental EPS	1.6cents	4.4 cents

\*Indicative returns as example only

- Based on \$233k income from each store
- Assumes 440 stores at August 2016
- Assumes tax rate of 30%
- Assumes 488m shares on issue

# Outlook

- Comfortable with market consensus of 15% growth in underlying NPAT of \$49.5 m for FY16
- Comparable store growth rate continuing at +2.6%
- Expect network to reach a minimum 440 stores by 31 August 2016; increased by a net 20 on FY15
- On track to meet working capital targets with reported net debt of \$70m at 31 August 2016



AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

THANK YOU



# Appendix 1

## ASIC Regulatory Guide 230 Disclosing non-IFRS financial information

In December 2011 ASIC issued Regulatory Guide 230. To comply with this Guide, Australian Pharmaceutical Industries Limited is required to make a clear statement about the non-IFRS information included in the Profit announcement and Half Year presentation for the period ending 29 February 2016.

In addition to statutory report amounts, the following non-IFRS measures are used by management and the directors as the primary measures of assessing financial performance of the Group and Individual Segments:

Non-IFRS measures used in describing the Business Performance include:

- Earnings before interest tax (EBIT)
- Earnings before interest, tax, depreciation, amortisation (EBITDA)
- Free cash
- Comparable Store Growth
- Interest cover
- Return on capital employed (ROCE)
- Return on Equity
- Underlying Pharmacy Growth
- Retail register sales

In addition to the above the following non-IFRS measures are used by management and the directors to assess the underlying performance of the Group during the period.

- Underlying NPAT
- Underlying EBIT

The directors consider that these performance measures are appropriate for their purposes and present meaningful information on the underlying drivers of the continuing business.

Many of the measures used are common practice in the industry within which Australian Pharmaceutical Industries Limited operates. The Profit Announcement and Full Year presentation has not been audited or reviewed in accordance with Australian Auditing Standards.

# Appendix 1 - Definitions

- EBITDA - Result from operating activities before Depreciation and Amortisation
- EBIT – Result from operating activities (includes late fee income from overdue trade debt)
- Free Cash – Cash generated from operations less capital expenditure. It does not include financing costs and tax paid
- Comparable Store Growth - Sales performance compared to last period for stores trading in the retail network greater than one year
- Interest Cover – Result from operating activities divided by net financing costs
- Net Debt – Borrowings less cash on hand
- Return on capital employed (ROCE) – underlying EBIT / Equity plus Net Debt - Tax
- Return on equity (ROE) – underlying NPAT/Equity
- Underlying Pharmacy Revenue Growth – Revenue computed on volumes before PBS price changes that occur on 1 April and 1 October each year
- Retail register sales – Sales recorded at the register of all franchise and company owned stores which exclude dispensary sales. Register sales made by franchisees do not form part of the result of the consolidated entity
- Retail network – franchise and company stores in the Priceline/Priceline Pharmacy brand
- Underlying EBIT – EBIT calculated as above without including one-off impairment or other one-off charges and associates contributions that have been detailed in financial periods under review. Refer page 27 for prior comparable period
- Underlying NPAT – NPAT calculated with the same exceptions as underlying EBIT. Refer page 27 for prior comparable period.





# AUSTRALIAN PHARMACEUTICAL INDUSTRIES LIMITED

